

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Wurtsmith Development Commission	County Iosco
Fiscal Year End June 30, 2007	Opinion Date August 10, 2007	Date Audit Report Submitted to State August 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

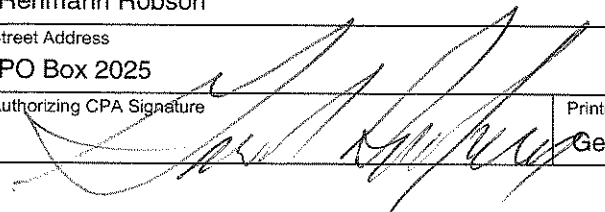
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None	
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA		License Number 1101007126

Wurtsmith Development Commission

Oscoda, Michigan

Financial Statements

June 30, 2007

WURTSMITH DEVELOPMENT COMMISSION

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REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

August 13, 2007

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Wurtsmith Development Commission** (the "WDC"), as of and for the 33-month period ended June 30, 2007, which collectively comprise the **Wurtsmith Development Commission's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Wurtsmith Development Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **Wurtsmith Development Commission**, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the 33-month period then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2007, on our consideration of the **Wurtsmith Development Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The ***Wurtsmith Development Commission*** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Wurtsmith Development Commission's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Wurtsmith Development Commission
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 81,076
Accrued interest receivable	<u>369</u>
Total assets	<u>81,445</u>
Liabilities	
Accounts payable	21,376
Advances from the federal government	<u>46,067</u>
Total liabilities	<u>67,443</u>
Net assets	
Unrestricted	<u>14,002</u>
Total net assets	<u><u>\$ 14,002</u></u>

Wurtsmith Development Commission
Statement of Activities
For the Period from October 1, 2004, through June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Public works	<u>\$ 4,021,526</u>	<u>\$ -</u>	<u>\$ 3,858,206</u>	<u>\$ -</u>	<u>\$ (163,320)</u>
General revenues:					
Unrestricted interest on deposits					347
Restricted interest on deposits					<u>109,703</u>
Total general revenues					<u>110,050</u>
Change in net assets					(53,270)
Net assets, beginning of period					<u>67,272</u>
Net assets, end of period					<u>\$ 14,002</u>

Wurtsmith Development Commission
Balance Sheet
Governmental Funds
June 30, 2007

	Major Funds			
	General Fund	Heat Conversion	Re-User Fund	Totals
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 67,074	\$ -	\$ 14,002	\$ 81,076
Accrued interest receivable	369	-	-	369
Total assets	<u>\$ 67,443</u>	<u>\$ -</u>	<u>\$ 14,002</u>	<u>\$ 81,445</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 21,376	\$ -	\$ -	\$ 21,376
Advance from federal government	46,067	-	-	46,067
Total liabilities	<u>67,443</u>	<u>-</u>	<u>-</u>	<u>67,443</u>
Fund balances				
Unreserved:				
Undesignated	-	-	14,002	14,002
Total liabilities and fund balances	<u>\$ 67,443</u>	<u>\$ -</u>	<u>\$ 14,002</u>	<u>\$ 81,445</u>

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Period from October 1, 2004, through June 30, 2007

	Major Funds			
	General Fund	Heat Conversion	Re-User Fund	Totals
Revenue				
Local sources	\$ 107,556	\$ 2,147	\$ 347	\$ 110,050
Federal sources	3,858,206	-	-	3,858,206
Total revenue	3,965,762	2,147	347	3,968,256
Expenditures				
Air Force reimbursable expenditures	3,861,604	-	-	3,861,604
Non-reimbursable expenditures	109,089	623	3,725	113,437
Total expenditures	3,970,693	623	3,725	3,975,041
Revenue over (under) expenditures	(4,931)	1,524	(3,378)	(6,785)
Other financing sources (uses)				
Refund grant proceeds to US Treasury	-	(8,895)	-	(8,895)
Net change in fund balances	(4,931)	(7,371)	(3,378)	(15,680)
Fund balances, beginning of period	4,931	7,371	17,380	29,682
Fund balances, end of period	\$ -	\$ -	\$ 14,002	\$ 14,002

The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Period from October 1, 2004, through June 30, 2007

Net change in fund balances - total governmental funds	\$ (15,680)
--------------------------------------------------------	-------------

Governmental funds do not report expenditures when capital assets that are not fully depreciated are disposed of. However, in the statement of activities, the difference between the historical cost of the asset and the accumulated depreciation at the time of disposal is accounted for as an expense.

Subtract: loss on disposal of capital assets	<u>(37,590)</u>
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Change in net assets of governmental activities	<u><u>\$ (53,270)</u></u>
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The accompanying notes are an integral part of these financial statements.

Wurtsmith Development Commission
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Period from October 1, 2004, through June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues				
Federal grant	\$ -	\$ 3,768,652	\$ 3,858,206	\$ 89,554
Interest income	-	-	107,556	107,556
Total revenues	<u>-</u>	<u>3,768,652</u>	<u>3,965,762</u>	<u>197,110</u>
Expenditures				
Administration	-	71,246	122,194	50,948
Legal services	-	23,998	31,178	7,180
Maintenance and inspections	-	-	57,742	57,742
Phase I - housing demolition	-	2,390,971	2,368,203	(22,768)
Water line relocation	-	193,524	193,374	(150)
Building #1608 roof replacement	-	66,586	66,586	-
Phase II - industrial demolition	-	1,015,321	1,015,321	-
Phase III - industrial demolition	-	7,006	7,006	-
Interest earnings paid to U.S. Treasury	-	-	109,089	109,089
Total expenditures	<u>-</u>	<u>3,768,652</u>	<u>3,970,693</u>	<u>202,041</u>
Net change in fund balances	-	-	(4,931)	(4,931)
Fund balances, beginning of period	<u>-</u>	<u>-</u>	<u>4,931</u>	<u>4,931</u>
Fund balances, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Wurtsmith Development Commission (the “WDC”) has followed the guidelines of GASB Statement No. 14 and determined that no entities should be consolidated into its financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the WDC. Therefore, the reporting entity consists only of the primary government.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The WDC had no business-type activities for the period ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest earned on deposits is not properly included among program revenues and is reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the Commission. It is used to account for all financial resources reimbursable under the Basic Caretaker Agreement, an agreement between the Commission and the Department of Defense.

The *heat conversion special revenue fund* is used to account for the proceeds of specific grant revenue that is legally restricted to expenditures for specified purposes.

The *re-user special revenue fund* is used to account for operations that are not reimbursable by the Department of Defense and is financed primarily by charges to base re-users for services provided.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

Amounts reported as *program revenues* include 1) charges to customers or for goods, services, or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all interest earned on deposits.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the WDC's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, LIABILITIES AND EQUITY

Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for the General Fund. Budgets were not adopted for Special Revenue funds. The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the General Fund is adopted by Caretaker Agreement line item.
2. Budgeted amounts presented are as originally adopted and as amended by the Commission.

THE WURTSMITH DEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

3. Original budgeted amounts are presented as \$0, because the Wurtsmith Development Commission did not adopt a budget until after the fiscal period began.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund had expenditures exceeding budgeted appropriations at the Caretaker Agreement line item level, which is the WDC's legal level of budgetary control for the period ended June 30, 2007.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
PUBLIC WORKS			
Administration	\$ 71,246	\$ 122,194	\$ 50,948
Legal services	23,998	31,178	7,180
Maintenance and inspections	-	57,742	57,742
Interest earnings paid to			
U.S. Treasury	-	109,089	109,089

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS

At year-end, the carrying amounts of WDC's deposits were as follows:

	<u>Cash and Cash</u> <u>Equivalents</u>
Cash on hand	\$ 100
Other demand accounts	<u>80,976</u>
	<u>\$ 81,076</u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments:

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Banker's acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Interest Rate Risk. WDC's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. WDC's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, WDC had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, WDC's deposits may not be returned. State law does not require and WDC does not have a policy for deposit custodial credit risk. At year-end, none of WDC's bank balance of \$81,017 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. WDC's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, WDC had no investments and was therefore, not exposed to concentration of credit risk.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. CAPITAL ASSETS

Capital assets activity for the period ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 54,766	\$ -	\$ (54,766)	\$ -
Less accumulated depreciation				
Equipment	<u>(17,176)</u>	<u>-</u>	<u>17,176</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 37,590</u>	<u>\$ -</u>	<u>\$ (37,590)</u>	<u>\$ -</u>

C. PAYABLES

Accounts payable consists of amounts owed to vendors for goods and services provided prior to the end of the fiscal period and the following estimated expenditures related to final close-down of the WDC that were obligated, but the services were not yet provided prior to the end of the fiscal period:

Financial statement audit	\$ 10,900
Bookkeeper service	400
Attorney services	<u>7,180</u>
Total estimated accounts payable	<u>\$ 18,480</u>

D. CONTINGENCIES AND COMMITMENTS

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, WDC management does not believe such disallowances, if any, will be material to the financial position of the WDC.

THE WURTSMITH DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

E. RISK MANAGEMENT

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and national disasters. As required by the Department of Defense, the Commission has purchased commercial insurance to cover these losses up to \$10,000,000 per occurrence. There are no significant outstanding deductibles related to insurance coverage. There were no significant reductions in insurance coverage from the prior year. Settlement amounts regarding claims against the Commission have not exceeded insurance coverage for any of the past three fiscal years.

F. CARETAKER AGREEMENT

The Basic Caretaker Agreement between the Commission and the Department of Defense is scheduled to expire in July 2007. When the caretaker agreement expires, the Commission will dissolve and cease to exist as a governmental entity, with all of the Commission's assets reverting to either the U.S. Department of Defense or to the local townships.

* * * * *

SINGLE AUDIT SECTION

Wurtsmith Development Commission

Schedule of Expenditures of Federal Awards

For the Period from October 1, 2004 through June 30, 2007

<u>Federal Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Defense - Air Force		
Basic Caretaker Agreement	Not available	\$ 3,970,693
Heat Conversion Project	Not available	<u>623</u>
Total Federal Award Expenditures		3,971,316

Reconciliation to Federal Revenue Recognized in Financial Statements

Less: Expenditures for Basic Caretaker Agreement funded with equity	(4,931)
Less: Expenditures for Heat Conversion Projects funded with equity	(623)
Less: Interest and program income earned on federal grant proceeds	<u>(107,556)</u>
Total federal revenue recognized in financial statements	<u>\$ 3,858,206</u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wurtsmith Development Commission and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations."



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 13, 2007

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

We have audited the financial statements of the governmental activities and each major fund of the **Wurtsmith Development Commission** as of and for the 33-month period ended June 30, 2007, which collectively comprise the **Wurtsmith Development Commission's** basic financial statements, and have issued our report thereon dated June 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Wurtsmith Development Commission's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Wurtsmith Development Commission's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Wurtsmith Development Commission's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Wurtsmith Development Commission's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Wurtsmith Development Commission's** financial statements that is more than inconsequential will not be prevented or detected by the **Wurtsmith Development Commission's** internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Wurtsmith Development Commission's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Wurtsmith Development Commission's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Wurtsmith Development Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Wurtsmith Development Commission's* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing Board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

August 13, 2007

Commission Members
Wurtsmith Development Commission
Oscoda, Michigan

Compliance

We have audited the compliance of the **Wurtsmith Development Commission** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the 33-month period ended June 30, 2007. The **Wurtsmith Development Commission's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the **Wurtsmith Development Commission's** management. Our responsibility is to express an opinion on the **Wurtsmith Development Commission's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Wurtsmith Development Commission's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **Wurtsmith Development Commission's** compliance with those requirements.

In our opinion, the **Wurtsmith Development Commission** complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the 33-month period ended June 30, 2007.

Internal Control Over Compliance

The management of the *Wurtsmith Development Commission* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *Wurtsmith Development Commission's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

WURTSMITH DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE 33-MONTH PERIOD ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified on financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of Major Programs:

CFDA Number

Name of Federal Program or Cluster

Not Available

Basic Caretaker Agreement

WURTSMITH DEVELOPMENT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE 33-MONTH PERIOD ENDED JUNE 30, 2007

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the Wurtsmith Development Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, Wurtsmith Development Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by Wurtsmith Development Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, Wurtsmith Development Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	Wurtsmith Development Commission has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in its best interests to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

WURTSMITH DEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 33-MONTH PERIOD ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

WURTSMITH DEVELOPMENT COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE 33-MONTH PERIOD ENDED JUNE 30, 2007

There were no audit findings reported for the fiscal year ended September 30, 2004.